

STATE OF MICHIGAN
DEPARTMENT OF LABOR AND ECONOMIC GROWTH
OFFICE OF FINANCIAL AND INSURANCE SERVICES

Before the Commissioner of the Office of Financial and Insurance Services

In the matter of:

Doris Marie Shaw
522 E. Main Street
Edmore, MI 48829

Enforcement Case No. 04-2740

Respondent

_____ /

Issued and entered this
7th day of January, 2005
by Linda A. Watters,
Commissioner

ORDER TO CEASE AND DESIST PURSUANT TO MCL 451.601
ORDER TO CEASE AND DESIST PURSUANT TO MCL 451.701
ORDER TO CEASE AND DESIST PURSUANT TO MCL 451.501(2)

I.

BACKGROUND

1. Respondent is a licensed real estate broker, ID # 6504184141.
2. Respondent was registered as a securities agent with the National Association of Securities Dealers (NASD) and the State of Michigan until May 15, 1996, when Respondent's registrations expired. Respondent has not been registered with either the NASD or the State of Michigan since that time.

3. Edmore Accounting, Inc., was incorporated March 1, 1977 and a Certificate of Authority was issued. The corporation was dissolved by "AUTOMATIC DISSOLUTION" on May 15, 1988 according to records of the State of Michigan Corporation Division.
4. Respondent incorporated Edmore Realty, Inc. on August 5, 1986. The status of that corporation was dissolved by "AUTOMATIC DISSOLUTION" on May 15, 1989.
5. Automatic dissolution requires that a corporation wind up its affairs and notify its creditors.
6. Respondent has continued to operate the accounting corporation from May 16, 1988 to the present. Respondent has conducted accounting and tax services in Edmore under various assumed names: Edmore Accounting, Inc., Doris Shaw Tax & Accounting Service and Shaw Real Estate/Tax Service.
7. Respondent apparently continued to operate a real estate firm, commonly known in the Edmore community under various assumed names: Shaw Real Estate, Doris Shaw Realty & Investment, Shaw Realty, and Shaw Real Estate/Tax Service.
8. Respondent was and is licensed as an individual under the name, Doris Marie Shaw. There were no real estate licenses issued to any of the corporate or assumed names used by Doris Marie Shaw.
9. Respondent established a tax preparation business in the 1980s in Edmore, Michigan.
10. Respondent extended her client base to the surrounding communities in Montcalm County. As a financial services adviser, offering tax preparation and accounting

services for many years Respondent accumulated insider and private financial information.

11. With apparent experience and expertise in the financial services industry as a licensed real estate broker, a registered securities agent, and a tax preparer, Respondent was positioned to offer Edmore and surrounding community residents a “one-stop shop” for all of their financial needs.
12. Respondent used her real estate license and securities registration to gain her clients’ trust. Trust is imperative for a financial services professional. As a securities sales agent, Respondent was in a position to offer investment advice to her clients as well.
13. Based upon this trust and experience as a “one-stop” financial services professional, Respondent launched an investment scheme that resulted in the loss of at least \$3 million to her clients.
14. The exact dollar amount is not yet known due to Respondent’s failure to provide required information and documentation to the Administrator.
15. The Respondent has refused to submit information requested in the Administrator’s 15-day letter. Therefore, the financial information was compiled from documents submitted by the complainants to OFIS and forms and schedules Respondent filed with the US Bankruptcy Court, Western District of Michigan.
16. An accurate total of the complainants’ investments and losses are not ascertainable due to the unreliability of Respondent’s books and records.

17. The records and documents the Respondent submitted to the Bankruptcy Court, indicate that none of Respondent's businesses, the accounting service and real estate company, have ever been audited.
18. No financial statements, prepared in accordance with generally accepted accounting principles (GAAP), were ever produced for investors.
19. The Respondent's financial information was not reviewed by an independent source such as a certified public accounting firm. There is no evidence of an arms-length, third-party verification of the assets, liabilities and equity of Respondent's companies.
20. Respondent provided a 12-page document of investors. The first column of the Summary lists page 1 through 12 and "Grand Totals," the next column is titled "Principal Loaned" and a third column is, "Total Paid by D. Shaw." OFIS staff attempted to "vouch" or verify the Respondent's Summary Sheet, with the 12-pages that detail Respondent's investor records. Nine of the 12 totals, which require simple addition, are miscalculated.
21. Further review of the Respondent's investor records revealed additional deficiencies in record keeping. Repayment dates were missing, amount repaid were the same as the original invested or less than face value, amounts were indicated with question marks:

<i>Investor</i>	<i>Date of Purchase</i>	<i>Amount</i>	<i>Amount Repaid Per Shaw</i>	<i>Date Repaid</i>
XXXXXXXXX,	5-3-02	1,250	1,024	No date listed
XXXXXXXXXX	5-30-01	9,000	1,950	11-5-01
XXXXXXXXXX	5-30-01	10,000	7,000	9-18-02
XXXXXXXXXX	6-7-01	9,000	2,386	3-22-02

XXXXXXX	1-9-01	96,000	56,272	No date listed
XXXXXXX	5-9-02	18,000	????????	????????
XXXXXXX	11-14-00	56,000	????????	????????
XXXXXXX	7-15-99	29,210	6,805	10-30-99
XXXXXXX	1-27-99	580,000	580,000	1-29-01
XXXXXXX	9-17-99	17,780	2,057	11-21-01
XXXXXXX	4-13-98	12,300	12,300	7-13-98

22. There are no dates of repayment for 4 of the records in this sample. Respondent's use of question marks for amount repaid and repayment date for investor Cheney is problematic and further supports the Administrator's belief that Respondent's records are unreliable.
23. Complainants each allege that they were solicited by Respondent to "invest" in promissory notes which were purportedly collateralized by land contracts. The interest rates of return promised ranged from 10.75% to 62%.
24. The historical chart of savings rates compiled by bankrate.com shows that interest rates from 1991 to 2003 never reached 7%, which confirms the Administrator's contention that Respondent's investments were far-fetched, fraudulent and had no basis in reality.
25. The Respondent's investment scheme continued based upon the complainants' years of trust and belief in Respondent's purported tax, securities and accounting skill.
26. Complainants were unaware that the dissolution of her accounting and real estate corporations meant Respondent was without authority to conduct business as an accounting or real estate corporation.
27. Documents submitted by the complainants indicated an ongoing investment scheme that appeared to begin on or about 1983.

28. Some of the earlier investors appear to have received their money back.
29. As the scheme continued, the Respondent enticed complainants to invest in various promissory notes with increasingly higher and unrealistic returns. With this new infusion of cash, Respondent would repay the earlier investors.
30. Ultimately, the scheme collapsed when Respondent's pool of new investors declined.
31. The North American Securities Administrators Association description of a Ponzi scheme and Senior Investment Fraud accurately describes the Respondent's activity.
32. Detectives from the Montcalm County Sheriff's office interviewed 111 investors who purchased promissory notes from Respondent.
33. The age demographics of the 111 victims reveal 90 victims were age 55 to 95 which represents 81% of the investors
34. The documentation submitted by Complainants contain an amalgam of documents that purport to be promissory notes.
35. It appears that Respondent used the ploy of a "promissory note" to raise funds for purposes that were not explained or disclosed to the Complainants.
36. According to complainants interviewed by the Montcalm County Sheriff's Office, Respondent indicated that the promissory notes were for various purposes including to purchase land contracts, to purchase housing for low-income citizens and other real estate deals. Respondent also represented to them that the investment was tax-free.

37. Complainants allege that their losses in Respondent's Ponzi scheme totaled \$5.6 million.
38. According to the Promissory Note Issuance Timeline, Respondent's scheme began in 1983 with one transaction totaling \$2,500.
39. By 1996, with 20 transactions, Respondent had raised \$257,220.
40. By the end of 1997, Respondent, through 29 investor transactions, raised \$466,700.
41. By 1999, Respondent's note issuance activity of 27 transactions ballooned to \$941,457.
42. When the scheme was discovered, the amount of promissory notes issued was \$3.4 million, according to Respondent's records.
43. Respondent claims to have repaid \$3.5 million.
44. If true, this means Respondent claims to have overpaid investors by more than \$100,000. This is further indication that the Respondent's records are unreliable.
45. Whether intentional or not, Respondent targeted the least sophisticated and most vulnerable segment of the population, senior and elderly citizens. This is the population that is most often targeted by persons perpetrating fraud in the financial services industry.
46. Respondent characterized the investment scheme to investors as a "loan" to be used for the purchase of land contracts. These land contracts would collateralize the promissory notes issued. There is no evidence that Respondent purchased or had possession of land contracts.

47. Respondent's filing with the Bankruptcy Court indicates that for years 2000 to 2003, total income from operations was \$19,676. However, during this same period, Respondent sold securities to Complainants and witnesses in the amount of \$929,414.
48. Respondent's assets include Amway product inventory which she valued at \$1,884,489.
49. It is likely that investment proceeds from Complainants and witnesses were used by Respondent to purchase an Amway distributorship rather than collateralize the investment, as agreed, with land contracts.
50. Failure to use investment proceeds as intended further supports the Administrator's contention that the Respondent was engaged in material misrepresentation and fraud.
51. Listed below, is a sampling of securities sold by Respondent:

Source: Documents submitted by the Complainants, Montcalm County Sheriff's witness statements and Respondent's Bankruptcy Court filing.

Table of Unregistered Securities – Promissory Notes

<u>Promised Rate</u>	<u>Date Sold</u>	<u>Investor</u>	<u>Amount</u>
Note – 40%	Dec 17, 2002	XXXXXX	\$15,000
Note – 10% and 49% discount	July 10, 2003	XXXXXX	\$10,000
Note – 62%	April 18, 2003	XXXXXX	\$10,000
Note – 21% and 32%	July 10, 2003	XXXXXX	\$20,670
Note – 10.75%	May 30, 2000	XXXXXX	\$3,400
Note – 10.75%	May 30, 2000	XXXXXX	\$8,028
Note – 18% discount rate and 10%	February 3, 2003	XXXXXX	\$1,700

interest			
Note – 12%	March 26, 2003	XXXXXX	\$10,000
Note – 10.75% and 36% discount	May 30, 2000	XXXXXX	\$4,624
Note – 10%	March 19, 2003	XXXXXX	\$2,180

52. This is further evidence of Respondent’s pattern of selling unregistered securities with no apparent economic value, and promising inflated and unrealistic returns on an investment.
53. This activity supports the Administrator’s belief that the Respondent was engaged in a long-term scheme, paying off early investors with funds raised from new investors.
54. Respondent indicated through counsel that she would not provide the Administrator the information requested.
55. A diligent search of the records of the Licensing Section, Office of Financial and Insurance Services, Michigan Department of Labor and Economic Growth, has been conducted through the Central Registration Depository (CRD), which is maintained by the National Association of Securities Dealers, Inc. (NASD) in Rockville, Maryland. The result of this search was that Respondent is not registered in the state of Michigan to conduct securities transactions in Michigan.
56. The sale or offer to sell promissory notes to the public is activity that requires the issuer to be registered or the securities to be registered or exempt.
57. Further, as a former securities sales agent, Respondent knew or should have known that the offer or sale of securities requires registration or exemption.
58. Characterizing an investment as a “loan” does not change the nature of the transaction, Respondent was offering and selling securities.

59. The Respondent was not registered nor were the securities exempt from registration under the Michigan Uniform Securities Act.
60. During the conduct alleged in this complaint, Respondent was no longer registered as a sales agent and was not registered as a broker dealer or investment adviser.

II.

ORDER TO CEASE AND DESIST PURSUANT TO MCL 451.601

Based on the investigation findings set forth in the background above:

1. At no time material herein was Respondent registered by OFIS as a broker-dealer or agent, or as a National Association of Securities Dealers (NASD) Registered Representative.
2. Section 201 of the Michigan Uniform Securities Act, MCL 451.601, prohibits a person from transacting business in this state as a broker-dealer or agent unless they are registered under this Act.
3. IT IS THEREFORE ORDERED, Respondent, shall immediately CEASE AND DESIST from selling or offering to sell securities in the State of Michigan.

III.

ORDER TO CEASE AND DESIST PURSUANT TO MCL 451.701

Based on the investigation findings set forth above:

1. The securities offered by Respondent were not securities registered for sale in the State of Michigan.
2. Section 301 of the Act, MCL 451.701, provides that it is unlawful for any person to offer or sell any security in this state unless 1 of the following is met:

- a. It is registered under the Act
 - b. The Security or transaction is exempted under Section 402 of the Act, or
 - c. The security is a federally covered security.
3. IT IS THEREFORE ORDERED, Respondent shall immediately CEASE AND DESIST from offering or selling unregistered securities in this state.

IV.

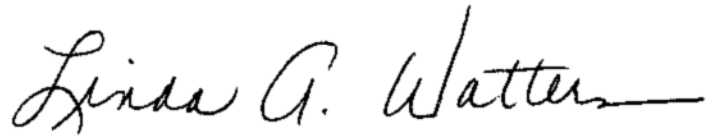
ORDER TO CEASE AND DESIST PURSUANT TO MCL 451.501(2)

Based on the investigation findings set forth above:

1. Respondent did not disclose the fact that:
 - a. She was not authorized to sell securities in this State; or
 - b. The securities she was offering were not registered in this State.
2. Section 101(2) of the Act, MCL 451.501(2), provides that it is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading.
3. IT IS THEREFORE ORDERED, Respondent shall immediately CEASE AND DESIST from failing to disclose the fact that neither he nor his corporation are registered to do business in the State of Michigan.
4. Failure to comply with this order will subject Respondent to one or more of the following:
 - a. Payment of a civil fine of \$1,000.00 for each violation of this act, but not to exceed a total of \$10,000.00.

- b. A criminal Penalty of not more than \$25,000.00 for each violation, or imprisonment of not more than 10 years, or both.
- 5. You may contest this order by requesting a hearing before the commissioner not later than 15 days after the order has been delivered or mailed to you.
- 6. The administrator, within 15 days after your filing, shall issue a notice of hearing and set a date for a hearing. Any request for a hearing should be addressed to: the Office of Financial and Insurance Services, Attention: Hearing Coordinator Dawn Kobus, P.O. Box 30220, Lansing, Michigan 48909.
- 7. If you do not request a hearing, or it is not ordered by the Administrator within 15 days, this Order will stand as entered and will be FINAL.
- 8. Any other communication regarding this Order should be addressed to the Office of Financial and Insurance Services, Attention: Laurence Wood, P.O. Box 30220, Lansing, Michigan 48909.
- 9. The commissioner of OFIS specifically retains jurisdiction of the matter contained herein to issue such further orders as the Commissioner deems just, necessary, or appropriate to assure compliance with the law and to protect the public interest.

OFFICE OF FINANCIAL AND
INSURANCE SERVICES



By: _____
Linda A. Watters
Commissioner

V.

APPLICABLE LAW AND PENALTIES

Section 201 of the Michigan Uniform Securities Act, (Act), MCL 451.601 provides:

A person shall not transact business in this state as a broker-dealer or agent unless they are registered under this Act.

Section 301 of the Act, MCL 451.701, provides:

It is unlawful for any person to offer or sell any security in this state unless 1 of the following is met:

- (1) It is registered under the Act
- (2) The security or transaction is exempted under Section 402 of the act
- (3) The security is a federally covered security.

Section 101(2) of the Act, MCL 451.501(2), provides:

It is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading.

Section 401 of the Act, MCL 451.807, states that the administrator may, in its discretion:

- a. Make such public or private investigations within or outside of this state as it deems necessary to determine whether any person has violated or is about to violate any provision of this act or any rule or order hereunder, or to aid in the enforcement of this act or in the prescribing of rules and forms hereunder.

- b. May require or permit any person to file a statement in writing, under oath or otherwise as the administrator determines, as to all the facts and circumstances concerning the matter to be investigated
- c. May publish information concerning any violation of this act or any rule or order hereunder.

(b) For the purpose of any investigation or proceeding under this act, the administrator, or any officer designated by it, may administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence and require the production of any books, papers, correspondence, memoranda, agreements or other documents or records which the administrator deems relevant or material to the inquiry.

Section 408, MCL 451.808 provides:

(a) Whenever it appears to the administrator that any person has engaged or is about to engage in any act or practice constituting a violation of any provision of this act or any rule or order hereunder, it may in its discretion issue a cease and desist order or bring an action in a circuit court to enjoin the acts or practices and to enforce compliance with this act or any rule or order hereunder.

(b) A person who has been ordered to cease and desist may file with the administrator within 15 days after service on him or her of the order a written request for a hearing. The administrator within 15 days after the filing shall issue a notice of hearing and set a date for the hearing. If a hearing is not requested by the person or is not ordered by the administrator within 15 days, the order will stand as entered. The administrator shall hold the hearing in accordance with the administrative procedures act of 1969, Act No. 306 of the Public Acts of 1969, as amended, being sections 24.201 to 24.328 of the Michigan Compiled Laws, and shall have all the powers granted thereunder. The administrator shall issue a decision sustaining, modifying, or dismissing the original order.

(d) None of the remedies provided for in this act are mutually exclusive and the administrator in its discretion may use as many remedies as it deems necessary. The administrator in seeking a remedy shall consider the present actions and the possibility of future violations by the parties against whom proceedings are contemplated, together with actions taken to mitigate harm to the public. The administrator may impose a civil penalty of not more than \$1,000.00 for each violation of this act, not to exceed a total of \$10,000.00.

Section 409 of the Act, 451.809 states:

(a) Any person who willfully violates section 101, 102, 103, 201, 203(h), 301(1), or (2), 402, 405(b), or 406(b), or who engages in conduct prohibited by section 204(a)(1)(J) to (S) and (V) to (Z), or who willfully violates section 404 knowing the statement made to be false or misleading in any material respect, shall upon conviction be fined not more than \$25,000 for each violation, or imprisoned not more than 10 years, or both.